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10 January 1974

MEMORANDUM FOR: Mr. Carl Van Duyne
Council of Economic Advisors
Old Executive Office Building

SUBJECT : Effective US Dollar Devaluation; Preliminary
CIA Trade-Flow Model Estimates

1. Attached are estimates of the effective devaluation of the US dollar, based upon a preliminary form of the CIA Trade-Flow Model. The monthly series covers the period from June 1971 through November 1973.

2. Observed monthly exchange rate fluctuations of different currencies were translated into effective dollar devaluations. First, a CIA model vector was derived that expresses the change in the aggregate US trade balance resulting from incremental changes in foreign currency exchange rates. Then, the dollar devaluation necessary to effect similar changes in trade patterns was calculated.

3. Several caveats must be noted. Although the model on which these effective rates are based differentiates between types of commodities, common price elasticities are assumed to hold within a given commodity group, regardless of the source country. Moreover, the implicit trade weights upon which the model simulation was carried out are based upon trade patterns existing in late 1971. Finally, the attached effective devaluations are based upon the exchange rates of the major US trading partners. Although the greatest share of US trade is accounted for by

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these nations, the effective rates would undoubtedly change to some degree with the inclusion of additional countries.

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4. If any further questions arise, please contact

[REDACTED]

/s/

[REDACTED]

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Acting Chief
Trade and Monetary Analysis Branch
OFFICE OF ECONOMIC RESEARCH

Attachment:
As stated

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EFFECTIVE US DOLLAR DEVALUATION

		<u>Percent Change</u> <u>from 29 May 1970</u>
1971	30 June	1.84133
	30 July	2.03874
	31 August	2.72175
	30 September	4.01007
	29 October	4.31175
	30 November	4.57014
	31 December	5.91109
1972	31 January	6.43183
	29 February	7.08047
	31 March	7.23825
	28 April	7.25970
	31 May	7.57426
	30 June	7.28914
	31 July	7.25715
	31 August	7.19209
	29 September	6.99462
	30 October	6.74062
	30 November	6.53233
	29 December	6.45173
1973	31 January	6.73162
	28 February	11.50737
	30 March	11.20038
	30 April	10.83158
	31 May	12.60594
	29 June	14.95121
	6 July	16.80838
	31 July	16.11642
	31 August	13.62774
	28 September	14.03170
	31 October	13.92591
	30 November	11.82109

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